

On-bill Programs in Michigan

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10:00 AM–2:00 PM

Traverse City, Michigan



Thank you to our host,



Meeting Objectives

Why On-bill?

Market Gaps Addressed by On-bill Programs

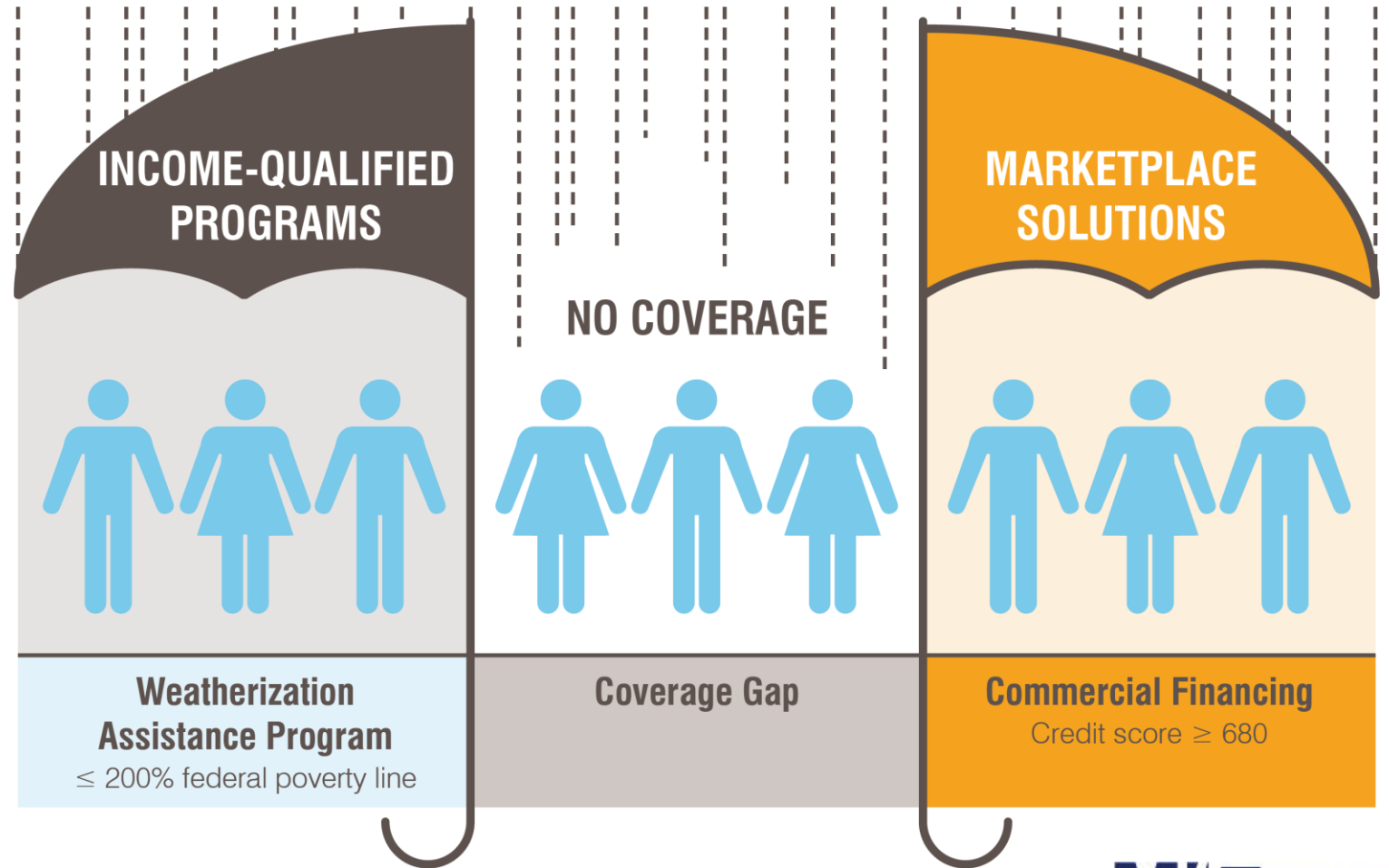
- These programs expand access to those who do not qualify for traditional loans by using utility bill payment history for underwriting
- By lengthening loan terms to 15 years, this (oftentimes) gets close to matching payments to savings
- Tenants can work with landlords to share the costs and realize benefits of improvements
- Homeowners who expect to move soon may be more inclined to install energy waste reduction improvements if the obligation transfers to next owner
- Combined bill makes it easy for customers to pay

Expanding Access: Energy Burden for Low-to-moderate Income (LMI) Households

- Michigan households consume 38 percent more energy than households in other states¹
- LMI households spend more than 15 percent of income on energy costs²
 - Average Michigan household spends 6 percent¹
- More than 1.4 million, or 37 percent, of Michigan households are considered LMI households²

Coverage Gap for LMI Households

- Access to capital is a primary barrier to energy efficiency for LMI households



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Overview

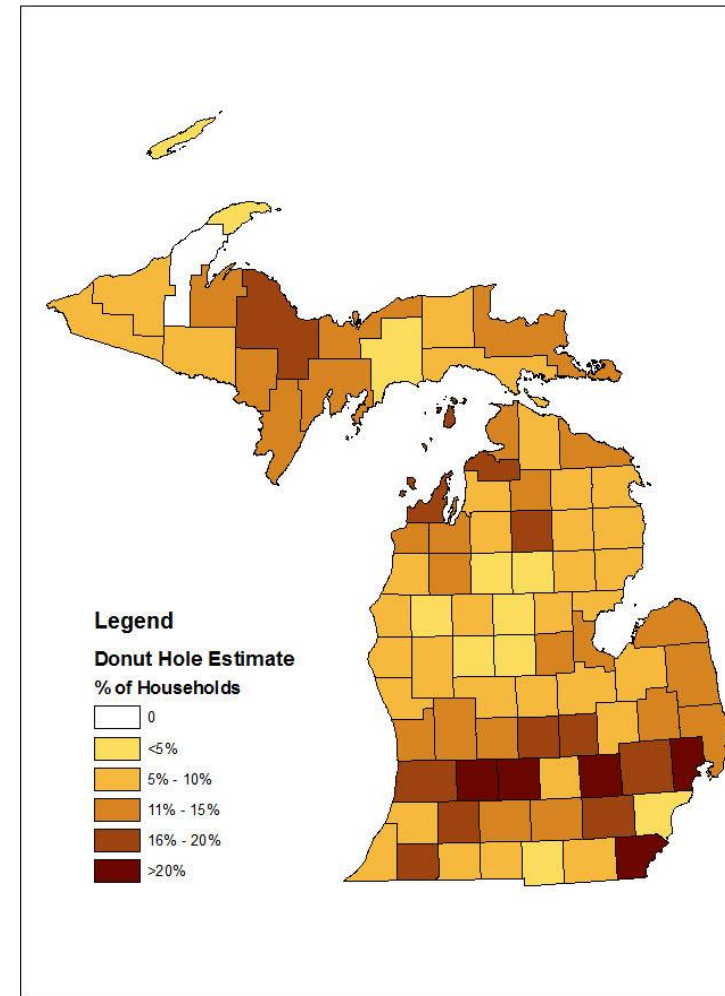
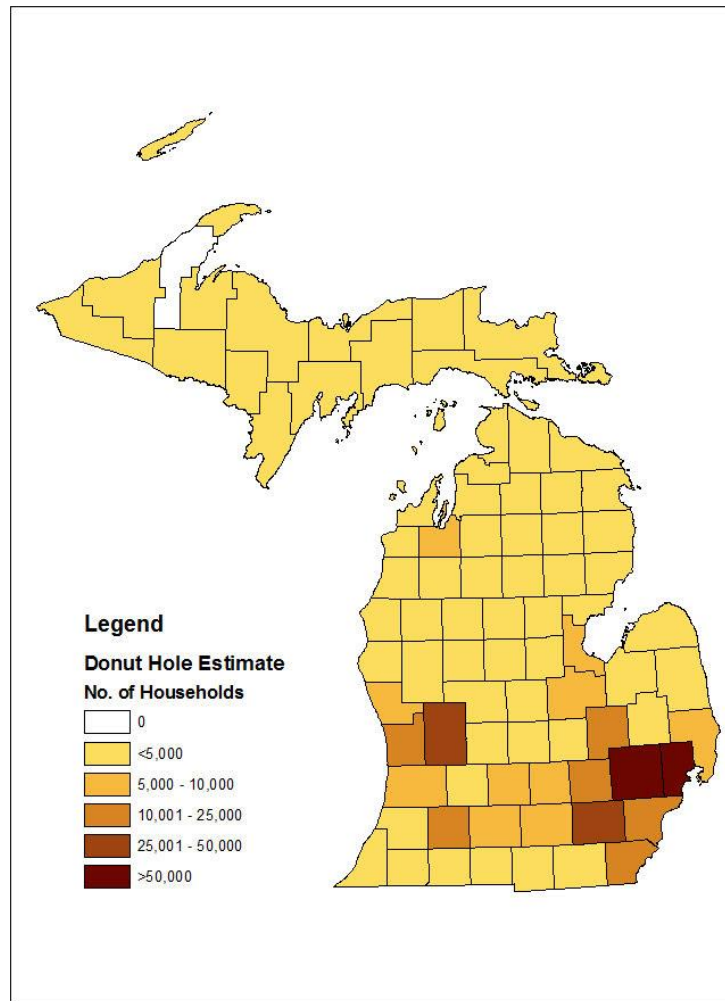
- Used federal data to estimate the number of households eligible for income-qualified assistance
- Used a mixed-method binomial model to estimate the number of households eligible for traditional financing

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Implications

- Identifies areas where high levels of the population may be overlooked by traditional financing or government assistance programs
- Allows for prioritization of energy-efficiency resources, programs, and incentives
- Suggests areas where an on-bill financing program could find success

Coverage Gap by County



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Enabling Legislation

- Michigan Municipal Utility Residential Clean Energy Program Act—Public Act (PA) 408 of 2014—signed into law in December 2014
 - Enables municipalities that have municipal electric utilities to establish a “residential clean energy program”
 - Allows a municipality to enter into a contract with a residential property owner to finance or refinance one or more energy projects on the property and repay the loan on the utility bill
- PA 341 and PA 342 of 2016 signed into law in December 2016
 - Allows regulated utilities to establish a “residential projects program”
 - Allows an owner of record of property in the provider’s service territory to finance or refinance an energy project and repay the loan on the utility bill

Holland On-bill Loan Program

- Financing mechanism for residential energy-efficiency improvements
- Loan repaid through charge on electric utility bill
- Created in October 2016
 - Holland Energy Fund
 - 501(c)(3) created to help implement Holland's 40-year Community Energy Plan
 - To be a thriving world-class, energy-efficient city that generates energy cleanly, uses it efficiently, and distributes it reliably and affordably.
 - Holland Board of Public Works
 - Michigan Saves



Holland Program Results to Date

November 2016–July 2018

Number of applications	144
Number of closed loans	66
Number of measures per loan`	7.43
Total financed amount	\$929,219
Average financed amount	\$14,079
Average annual electric savings per project	838.60 kilowatt hours
Average annual natural gas savings per project	341.75 therms
Number of loans with a 15-year term	36

How do I set up an on-bill program?

Program Design Considerations

- Program scope
- Program financing sources and structure
- Program administration



Program Scope

- Set program goals
- Assess barriers to achieving goals
- Select eligible properties
- Select eligible improvement measures
- Determine availability of administrative resources
 - Information technology, origination, billing, contractor management, quality assurance, etc.
- Adopt a resolution of intent

Program Financing Sources and Structure

- **Determine Source of capital**
 - Internal funds, public funding (e.g., United States Department of Agriculture), ratepayer funds, bonds and millages (municipal utilities only), private lenders, foundations
- **Consider credit enhancements**
 - Form of risk management that protects the financial exposure of the lender to losses
- **Establish method of assessing creditworthiness**
 - Credit scoring, debt-to-income ratio, on-time utility bill payment history
- **Create loan or tariff structure**
 - Does the loan stay with the individual or with the meter?
- **Define consequences for nonpayment**

Program Administration

- Drive demand for an on-bill program
 - Identify target market
 - Develop marketing and outreach plan
 - Should align with program goals
- Develop and manage a network of local contractors
- Develop process for screening measures
- Set quality assurance standards and procedures
- Establish data management and evaluation, measurement, and verification standards
- Originate and service loans

Two Potential Implementation Options

Set up your own program

Greatest flexibility
Highest costs

Participate in a statewide program

Improved economies of scale
Lower administrative costs
Easier implementation for each utility
More centralized financing expertise
More consistency in program design and less marketplace confusion
Easier for contractors to implement

2017 On-bill Stakeholder Meetings

- In April 2017, the Michigan Public Service Commission and the Michigan Agency for Energy initiated an informal stakeholder meeting process for the purposes of receiving input and feedback for on-bill financing program goals
- Staff held two meetings with stakeholders
 - At the first meeting, staff provided stakeholders with essential information related to on-bill program goals, key program design elements, and strategies for best meeting customer needs
 - At the second meeting, stakeholders identified goals for implementing consistent on-bill programs statewide

Guiding Principles for Program Design

- The following guiding principles were used to evaluate the importance and efficacy of different program design elements:
 - Provide uniformity and simplicity in processes
 - Address gaps in coverage with existing and available financing programs
 - Is viable for capital providers
 - Ensure reasonable participation costs for utility participants
 - Leverage existing statewide resources
 - Allow program goals to be met

Program Administration

	Municipality	Regulated Utility
Establishing program	Resolution, public hearing, detailed report	Commission approval of a proposed plan
Administration	Municipal utility or any nonprofit	Utility or any third party
Lending laws	Must comply with all state and federal lending laws	Must comply with all state and federal lending laws

Eligible Improvements

	Municipality	Regulated Utility
Energy waste reduction	Yes	Yes
Renewable energy	Yes	Yes
Water efficiency or water use reduction	Yes	Yes
Improvements necessary to allow energy waste reduction improvements (e.g., asbestos removal, below-code wiring)	Broad interpretation of the law would allow	Broad interpretation of the law would allow
Fees and installation costs for implementing eligible improvements	Can be included in financing	Can be included in financing

Financial Product

	Municipality	Regulated Utility
Origination and servicing	Municipal electric utility, nonprofit corporation, or commercial lenders	Commercial lender or other legal entity, including subsidiary of provider
Capital	Bonds, owner-arranged financing, or funds available to the municipality through any other source	Commercial lender or other legal entity, including subsidiary of provider
Interest rate	If nonprofit provides financing, maximum interest rate is prime plus 4 percent	If nonprofit provides financing, maximum interest rate is prime plus 4 percent
Term	Maximum term is 15 years or useful life of measures	Maximum term is 15 years or useful life of measures

Financial Product (cont.)

	Municipality	Regulated Utility
Loan treatment	Part of the charges for electric service and paid monthly as a per-meter charge on utility bill	Part of the charges for electric or gas service and paid monthly as a per-meter charge on utility bill
Consequences for nonpayment	Same as electric service; service can be shut off for nonpayment	Same as electric or gas service; service can be shut off for nonpayment
Transferability	If notice of loan is recorded with register of deeds, payment obligation transfers to subsequent occupants at time of property transfer	If notice of loan is recorded with register of deeds, payment obligation transfers to subsequent occupants at time of property transfer

Required Program Design Elements

	Municipality	Regulated Utility
Residential only	Yes	Yes
Audit	Required	Required
Quality assurance	Verification of proper installation and operation must be completed on every project	Verification of proper installation and operation must be completed on every project

Program Design Options

	Municipality	Regulated Utility
Program administrator	Utility or other nonprofit	Utility or third party
Eligible improvements	Eligible improvements are listed but all are not required	Eligible improvements are listed but all are not required
Loan origination and servicing	Can be done by utility, nonprofit, or commercial lender	Can be done by utility, third party, or commercial lender
Capital source	Bonds, owner-arranged financing, or other source available to municipality	Law is not prescriptive
Underwriting	Law is not prescriptive	Law is not prescriptive
Disconnection for nonpayment	Allowed but not required	Allowed but not required
Transferability	Allowed but not required	Allowed but not required

Oversight

	Municipality	Regulated Utility
Overall program rules	PA 408	Commission must establish within one year
Developing and monitoring plan	City resolution	Each regulated utility gets plan approved by commission; plan is reviewed every four years by the commission
Reporting	Established in city resolution	Commission must issue report to legislature every five years
Monitoring	Established in city resolution	Energy ombudsman

Next Steps

M[⚡]Energy

Michigan Agency for Energy



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